



The Insider

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Shall We Fix Our Budget Problem?

Or Should We Annually Repeat our Deficits, Year After Year?

The Governor presented her budget on Feb. 11, which revealed her plan to eliminate the state's \$1.6 Billion deficit. For anyone who has followed the state's fiscal history the last decade, it seems like *déjà vu* all over again. We have been struggling almost every year with Billion dollar deficits. How do we end this cycle?

The Governor's budget relies on about \$900 million in Federal Stimulus dollars. Some argue that we should not take this money, but not taking it would be foolish. After all, if we didn't take it, the money would be given to other states. And worse yet, we the citizens of Michigan would still have to pay back the debt, even if we didn't get any of the money. We are already a donor state. Not taking the stimulus money would make us even more of a donor.

That would be unwise.

It may be that the country as a whole would be better off if we didn't build up enormous debt. But the Federal Government has offered us the money. Even if you wish they hadn't, you'd be a fool not to take it.

What we do with it, however, is a matter of our choice. If we use it to prop up spending at a level we can't sustain, we are only delaying the inevitable cuts. We should use the money to make fundamental transformations and reforms. That way, when the money is gone, we will have accomplished some changes that make us more competitive or efficient. Unfortunately, it appears that we are using the Federal money the way most states use it, to maintain current operations.

That's a missed opportunity.

To her credit, the Governor has proposed some fundamental changes to the structure of state operations. Agree or disagree, you have to respect the proposals for big changes. Most significant is her call to lower the state sales tax from its current 6% level to 5.5% and then extend the sales tax to many services that are not currently taxed.

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Some Bold Reforms

Require legislature to enforce Pay As You Go for all proposals that spend money or cut revenue.

Consolidate School Elections to November. Make all local elections in odd years and State/Federal elections in the even years.

Drop the DROP (double dipping-getting pension and paycheck at the same time).

Consolidate emergency dispatch county wide, end duplication of road patrol by both state police and county sheriff.

Establish pension equity between public and private pensions.

Reduce school administrative expenses.

Taxation With Representation Town Hall Meetings

I am again holding a series of Town Hall Meetings. We discuss the Governor's proposals to change our tax code and other options in dealing with the state's budget deficit. Meetings are free and open to the public. Come and reason together. My first Town Hall last week at the Clinton Township Public Library drew about 40 people and I think most all of us came away thinking thoughts we hadn't considered before. Come participate, it's good for the soul.

Town Hall Schedule

Roseville

Monday, February 22nd, 7-8:30 pm Erin Auditorium, Roseville Public Library.

Sterling Heights

Monday, March 1st, 7-8:30 pm Sterling Heights Public Library.

Can We Fix Our Budget? Cont'd...

I have to admire the courage this takes, because to propose any tax in this climate takes guts. I think it is likely that the legislature will reject the proposal. That is unfortunate, because the idea is sound, and with some modifications it could modernize Michigan's hopelessly out of date sales tax.

I would suggest 2 changes. The cap of 6% on sales taxes is in the Constitution, but a simple statute lowering it to 5.5% could be changed by a future legislature. Putting 5.5% in the Constitution would require a vote of the people, but also guarantee that level unless voters agreed to change it again.

The proposal generates about \$500 million to avoid cuts to schools this year, and then devotes that money in future years to reducing the Michigan Business Tax. Those are nice things to do. But ask yourself: do you want to raise the tax on individuals (we are the ones paying the new sales tax on services) in order to lower the tax on business and pay more for schools? In this economy, that is not an easy question. Supporters believe lowering the business tax will create more jobs. But it could also hurt individuals who are just scraping by.

I believe the state should tax more services, because they are growing faster than the sales of goods. That is why our sales tax is out of date. Whether we use the opportunity to try to raise additional money, and try to fix other problems like education or business is debatable.

But modernizing the sales tax would be a laudable interim goal that would prove to be very beneficial in the long run.

Transportation taxes also need an overhaul. The Governor endorsed a proposal to raise more funding, but did not include it in her budget. Perhaps she believes the legislature doesn't have the guts to approve it. She may be right. Too many people think opposition to any tax is a thoughtful position.

I don't find it thoughtful at all. I think it is a knee-jerk reflex. It represents a vision that sees the price of everything and the value of nothing.

Consider the facts. The state's 19 cent gas tax doesn't raise what it used to. We are driving fewer miles and in more fuel efficient vehicles. That means less gas tax to fix potholes. And consider the fact that hybrids and electrics use little or no gas. But they drive the same roads and help create the same potholes. Shouldn't they pay for upkeep like the rest of us?

Big trucks continue to receive a diesel discount, so even though they are tearing up the roads more, they are paying less to fix them. Failure to fix transportation funding by modernizing road taxes will result in the state leaving \$500 million in Federal Funds on the table. That's \$2 Billion over the next 4 years. That could fix a lot of potholes.

The Governor recycled an idea from last year that fell flat, and it is hard to see why it won't fail once again. The 3% Physician Tax would raise about \$150 million and draw down an additional \$350 million in Federal match. But the doctors hate the idea and were successful in killing it just a few months ago.

Nothing has happened to make it seem more likely to gain Senate passage, where it lost 34-4 in September. The most likely result will be an 11% cut to the reimbursement rates paid to Medicaid physicians. That creates its own set of problems, but it appears to be the lesser of two evils if you ask the doctors.

There are other parts of the Governor's proposed budget that appear doomed. Her \$140 million in savings to the Corrections budget has already been called dead on arrival by Senate Republicans.

But let's be clear. If we say no to all these ideas, we will return to the same cuts we have been making every year. That means less for Schools, Revenue Sharing, and Universities.

Until we do something different, expect more of the same next year. Don't you think it is time we act boldly, make a break with the past, and fix our fiscal problems so we don't repeat this same charade next year?

I do.

Time to be Bold

Now is the time to consider radical proposals. Before you reject them, decide whether change is better than the status quo. Don't be someone who knows the price of everything and the value of nothing.